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SUBJECT: EDISON CEO QUADRINO BULLISH ON PROSPECTS FOR TGI

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¶1. (SBU) On November 6, 2008 Ambassador Silverberg met with Umberto Quadrino, CEO of the Italian energy firm Edison. Quadrino was in town for meetings with EU officials, notably Energy Commissioner Andris Piebalgs. His objective was to promote the Turkey-Greece-Italy (TGI) gas pipeline project and to ensure that it receives the same level of support as the Nabucco gas pipeline project. Quadrino has been concerned that the Commission favored Nabucco to the exclusion of other projects. Piebalgs assured him that he does indeed intend to promote the Southern Corridor concept and will not favor one project over the other when he speaks with Turkish and Azeri officials on his travels this week. Queried by a reporter immediately after the meeting with Quadrino, Piebalgs said "It will be the market to choose between Nabucco and IGI-Poseidon. For the EU they are both priorities but Edison's pipeline is more advanced."

¶2. (SBU) On the subject of the 15 percent lift-off clause in the original trilateral agreement between Turkey, Greece, and Italy, Quadrino said that the Commission did not like this clause because it is too different from the EU transit model and the Commission feels it sets a bad precedence for future deals -- 15 percent of 8 bcm is much less than 15 percent of 31 bcm. Azerbaijan doesn't like the trilateral agreement because it wants to negotiate a sales price directly with Turkey. Because of this opposition, Edison has been negotiating with Turkey to drop the 15 percent figure and substitute a hard quantity of gas. Out of 11 bcm available for export from Azerbaijan's Shah Deniz II (SD II) project, Quadrino envisages 2-3 bcm going to Turkey, 1-1.5 bcm to Greece, and the remainder to Italy. Quadrino said TGI can go forward on this basis, but can't go forward if Turkey continues with its recent insistence that it needs 8 bcm off the top of any Azeri volumes.

¶3. (SBU) Edison has been working quietly on a quadrilateral agreement between Italy, Greece, Turkey, and Azerbaijan to replace the current trilateral agreement. Quadrino believes they are close to an agreement and is confident that Turkey will accept an agreement whereby Turkey will have the right to buy a fixed quantity of the gas from Azerbaijan and the price for that quantity will be negotiated directly between Azerbaijan and Turkey. Quadrino believes that moving forward on the quadrilateral agreement is important, because it will enable the parties to proceed with commercial arrangements. And Quadrino believes Azerbaijan will not be willing to take the decision to develop SD II until they see the quadrilateral transit agreement in place.

¶4. (SBU) Edison plans to officially circulate the quadrilateral draft to the Turks and Azeris this week. Quadrino said that Prime Minister Silvio Berlusconi will meet with Turkish Prime Minister Erdogan on November 13. Shortly

after that on November 26 Berlusconi will meet with Azerbaijani President Ilham Aliyev in Rome. Quadrino speculated that the Aliyev-Berlusconi meeting may be the opportunity to announce a political agreement on the quadrilateral agreement for TGI. Edison believes Azerbaijan will support the quadrilateral agreement if Turkey agrees, because this will bring their bilateral negotiations with Turkey into a multilateral setting. Azerbaijan, however, is not likely to push forward on this agreement until Turkey has made the commitment.

15. (SBU) Quadrino stressed that U.S. support for TGI has been, and continues to be key. He asked for continued U.S. support to encourage Turkey to move forward on the quadrilateral agreement and for the U.S. to urge Azerbaijan to commit to developing the SD II gas volumes. Quadrino was less complimentary of EU support for the project, despite the positive meeting he had with Piebalgs. Quadrino noted that Piebalgs told him that the U.S. position is to support Nabucco and not TGI.

16. (SBU) Quadrino believes that TGI is a 2011 project whereas Nabucco is more a 2018 project. TGI can move forward with just the SD II volumes, but Nabucco will require additional sources beyond Azerbaijan. Quadrino contends that allowing TGI to proceed now would actually open up the Southern Corridor to future projects such as Nabucco down the road. Quadrino also warned that timing is crucial, arguing that if the Europeans don't move forward to secure Azeri supplies now, the Azeris will commit to Russia instead. In response to Ambassador Silverberg's question regarding rumors that Edison has lost enthusiasm for TGI, Quadrino assured her that this is not the case and that Edison is working very

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hard to promote TGI.

17. (SBU) Comment. Notwithstanding Quadrino's positive meeting with Piebalgs, we have recently heard from Commission officials (see reftel) that privately Nabucco is preferred because it would be a much larger project (31 bcm) and would also bring an alternate source of gas to the Gazprom dominated Central European market whereas TGI would bring a smaller quantity to the already diversified Italian market. End Comment.

Silverberg

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